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C O N F I D E N T I A L SECTION 01 OF 02 DILI 000262

SIPDIS

MCC FOR VP HEWKO, EAP/MTS

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TAGS: [ECON](#) [MARR](#) [MASS](#) [EAID](#) [MCC](#) [TT](#) [PREL](#) [OTRA](#) [PGOV](#) [MCAP](#)

SUBJECT: PM GUSMAO ON ECONOMIC POLICY AND SECURITY SECTOR REFORM

CLASSIFIED BY: Major Ron Sargent, US Defense Representative, US Embassy, Dili, East Timor, Department of Defense.

REASON: 1.4 (b), (d)

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¶1. (C) Summary. In an extended meeting with the Ambassador on October 8, PM Gusmao shared the economic policy woes his government has faced in 2008 and prescriptions for 2009, his plan to appoint a very senior Timorese politician as a second Vice Prime Minister in charge of improving government services, and his intention to become more active in his duties as the Minister of Defense and Security. He also offered views on Portugal's role in Timor, the story behind the purchase of two Chinese patrol boats earlier in the year, and his desire to reform the Timor-Leste security sector. Regarding the police and the military, he said he needed time to develop his priorities (through the end of 2008), and expressed hope for U.S. support once implementation begins in 2009. In particular, he welcomed the possibility of a U.S. organized or facilitated donor conference in the area of maritime security perhaps in the March 2009 timeframe. End summary.

¶2. (C) Prime Minister Xanana Gusmao met with the Ambassador and ODC Chief on October 8 to discuss the recently concluded National Security Policy Development Workshop, hosted by the Asia Pacific Center for Security Studies (APCSS) in Honolulu on September 8-12. Gusmao expressed his appreciation for American cooperation, mentioned his government was in the process of providing a report on the outcomes, and said that he would consult with his security sector leadership regarding next steps - particularly with regard to future United States support. Additionally, Gusmao noted that he would like to conduct a maritime security donor conference in either February or March 2009, and welcomes U.S. assistance in putting such an event together. When the Ambassador mentioned that both U.S. Pacific Fleet and U.S. Marine Forces Pacific would be conducting assessments in mid-November 2008, the PM said these would be well-timed and helpful in assisting his government determine how to move forward on donor coordination. These comments are consistent with remarks made to the Ambassador in a separate meeting with Secretary of State for Defense Julio Tomas Pinto on

October 7 during which Pinto said "we (Timorese) simply do not know how to conduct a donor conference, and U.S. assistance in this regard would be appreciated." During a visit to Dili on July 14-16, 2008, the Commander, U.S. Pacific Fleet, Admiral Robert Willard also discussed with Pinto the potential benefits of a donor conference to the coordinated development of Timor's maritime security capabilities. Willard offered that the U.S. could assist in organizing such an undertaking.

13. (C) Gusmao indicated that he has been greatly frustrated by his government's lack of capacity during the course of 2008, especially its still low rates of budget execution, but that he had learned a great deal from the experience. He said that during an AMP retreat he is hosting next weekend, he will announce the elevation of PSD leader and Member of Parliament Mario Carrascalao as a second Vice Prime Minister. Carrascalao would focus on the government's ability to execute the budget, improve its fiscal discipline, enhance government operations, and oversee capital development and infrastructure projects. Gusmao was pointed in his criticism of his ministers and secretaries of state in charge of the police, justice, and especially infrastructure in failing to execute their appropriations. He is planning measures to punish ministries with poor records of budget execution and reward those that have performed well. A key future focus will be infrastructure, and the PM emphasized his determination to realize significant progress in 2009 in road construction and extending the power distribution network. To ensure quality of implementation, he said that Timor must outsource engineering and project management. He also bemoaned a parallel weak capacity among Timor's private sector firms to implement and complete projects.

DILI 00000262 002 OF 002

14. (C) Gusmao said that giving Carrascalao these economic responsibilities would enable him - the PM - to focus more on being the Minister of Defense and Security (a portfolio he holds, but acknowledges he has not committed much time to except in responding to the events following the February 11 assassination attempts) and hasten steps needed to reform Timor-Leste's security institutions. Gusmao also expressed concern about the inability of his government to adequately liaise and coordinate with President Jose Ramos-Horta's Security Sector Reform and Development team, headed up by ex-Defense Minister Roque Rodrigues. He expressed confidence that once he is able to focus more on security sector matters, he would take on the task of reforming the police and military as top priorities.

15. (C) The PM noted that reform of the National Police (PNTL), would be an especially daunting task due to the institution's considerable weaknesses. He cited the recent experience of Minister of Justice Lucia Lobato, who organized training on Timor's constitution and law for the PNTL, and discovered that 85% of serving officers lack even a basic understanding of the country's laws. He described the current police commander as a "weak leader", discussed the problems associated with the selection of a possible successor, that this process was being made more difficult by lingering East-West ethnic tensions within the force, and ongoing "political manipulation" of key members of the police. Gusmao also said that President Ramos-Horta favors assigning someone from outside PNTL's ranks to the post - something the PM clearly indicated he is not in favor of.

16. (C) In a remarkable aside on Portugal's involvement in Timor-Leste's security sector, Gusmao said Lisbon was "neither

an obstacle to support from other countries, nor fundamental to Timor-Leste", and acknowledged that his nation needed to look more closely towards neighboring countries and the United States as the key points of reference for Timor's strategic orientation. He added that while he holds the revolving presidency of a post within the Community of Portuguese Language-speaking Countries (CPLP), he had difficulties remembering the name of the post and exclaimed that he was glad he only had to hold it for a year.

17. (C) Gusmao closed by shedding light on the machinations at play in his government's recent decision to purchase two Shanghai-class patrol boats from China. He said that this procurement had actually been initiated during the government of ex-PM Mari Alkatiri, and that Gusmao only went forward with it after he had been presented with clear evidence regarding the activities of fishing boats operating illegally in Timorese waters in February 2008. He characterized FRETILIN's public criticism of the boat purchase as hypocritical in light of the fact that they had initiated contact with the Chinese - probably in 2006 - on this particular procurement. Interestingly, Gusmao went on to say that Member of Parliament and ex-Minister of State Administration Ana Pessoa Pinto had confided to him on August 28 that the only reason FRETILIN's leadership was upset was because of Gusmao's decision to select FRETILIN founding member, Abilio Araujo, to serve as the broker for the deal. Previously, Araujo served as FRETILIN's representative to Portugal during the Indonesian occupation, but was expelled from the party in 1994 because of a dispute with Alkatiri.

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